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C O N F I D E N T I A L SECTION 01 OF 02 BRATISLAVA 000911

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [LO](#) [RS](#)

SUBJECT: PUTIN TO SLOVAKIA - WHY WOULD YOU WANT TO OWN AN
EMPTY PIPELINE?!

REF: A. BRATISLAVA 870

[1](#)B. BRATISLAVA 816 AND PREVIOUS

Classified By: Charge Lawrence R. Silverman for reasons 1.4 b) and d)

[1](#)1. (C) Summary - Russian President Vladimir Putin sent a blunt message on the future of the Transpetrol pipeline to Slovak President Ivan Gasparovic when the two met in Moscow on November 6th. In response to Gasparovic's assertion that the Slovak's preferred option is a GOS buyback of the 49 percent stake, Putin asked "why would Slovakia need a pipeline if it didn't have any oil to fill it?" Putin did provide a green light, however, for Slovak plan B: GOS approval of a sale to Gazpromneft in return for the Slovaks regaining management control and a commitment by the Russians to further develop the pipeline and allow for a diversity of supply. The technical details of the agreement will be worked out in discussions beginning in Bratislava today (11/16) between Economy Minister Lubomir Jahnotek and Director of Yukos Finance BV Sergei Shmelkov. Changes could be implemented as early as Monday, November 20, at the Transpetrol shareholders meeting (if additional items are added to the agenda.) In the end the GOS will likely end up with management control, at least on paper, but will not be able to meet the original objective of promoting true diversity of supply. End Summary.

AN OFFER YOU CAN'T REFUSE

[1](#)2. (C) Prior to departing for Moscow, President Gasparovic had told Ambassador that although he continued to favor a Slovak buyback of the 49 percent stake in Transpetrol, he no longer believed that this was a viable option. Gasparovic said he had received signals that the Russians were intent to regain this share from Yukos' Netherlands-based entities. Economy State Secretary Peter Ziga, who was not in Moscow but received a readout of the Moscow meetings from Minister Jahnotek when he returned from a subsequent trip to India November 15, confirmed that a buyback was no longer possible. Implying that a Slovak buyback could threaten future Russian oil supplies to Slovakia, Putin reportedly made it very clear to Gasparovic that Russia would only consider a deal that led to a Russian company obtaining the 49 percent stake in the pipeline from Yukos. Minister Jahnotek received a similar message from the head of the cabinet office, Sergey Naryshkin. In addition to Putin's threat about the potential for an empty pipeline, both Jahnotek and Gasparovic expressed concerns prior to their trip about a connection between Transpetrol and negotiations over gas contracts, which are set to expire in 2008, as well as deals for the supply of nuclear fuel.

[1](#)3. (C) During his meeting with Gasparovic, Putin did agree to

the broad outlines of a deal whereby the GOS would approve a sale by Yukos Finance to Gazpromneft in return for a commitment to meet four Slovak conditions. The first, and most important condition, is that the GOS regain management control of the Transpetrol board by appointing three of the five board members. The Slovaks would give up control of the supervisory board, which they currently hold, as a part of this arrangement (they currently appoint five of the nine supervisory board members). The supervisory board's primary function is to approve loans and transactions in excess of USD 3 million. In addition, the Russians would commit to increasing the amount of crude transiting through the pipeline from the current 10.5 mta to 17 mta, would upgrade the pipeline so that it could carry both Urals heavy crude and light Caspian crude in the event that Odessa-Brody were to move forward, and extend the pipeline to Schwechat in Austria. Jahnatek was reportedly disappointed that the Russians were not willing to engage in more detailed discussions on next steps to implement the agreement while he was in Russia.

REBGUN'S REPS IN TOWN TO NEGOTIATE

¶4. (C) Sergei Shmelkov, who was appointed by Yukos Oil Receiver Eduard Rebgun as a Director of Yukos Finance BV in August, arrived in Bratislava on 11/16 to begin negotiations on the technical details of the plan outlined in Moscow. Ziga told us that Minister Jahnatek is taking the lead in the negotiations for the GOS, and would also represent the government at the shareholders meeting on Monday, November 20. Jahnatek will seek changes to the Transpetrol shareholder's agreement, the articles of association, and the company's strategic plan in order to incorporate the four

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conditions. Ziga stressed that the GOS would not go forward with the November 20 meeting if Shmelkov was not negotiating in good faith or if any of the four conditions were left out of the deal. (Comment: Jahnatek has been distrustful of Rebgun's intentions throughout this process, and previously told us he would only negotiate with his representatives if he got a clear signal from Moscow to do so. End Comment.)

¶5. (C) The official purpose of the shareholders meeting is to replace the two GOS board members, who were appointed by the previous government, with new representatives. If all shareholders agree, it is possible to add items to the agenda at the beginning of the board meeting. Ziga did not know whether the November 20 meeting would take additional steps, such as changing the structure of the board or altering the shareholders agreement. Ziga noted that a lot will depend on the negotiations with Shmelkov. Rebgun is expected to push for a change to the Yukos Finance representatives on the board, and thereby strengthen his hold on Yukos' assets. The current board had previously denied Rebgun's request to hold a shareholders meeting because of questions about his legitimacy to represent Yukos Finance (Ref B.)

¶6. (C) We do not know whether Yukos International will contest Rebgun's ability to represent Yukos Finance at the shareholders meeting or take other steps to stop or delay the process. (Note: Slovak law recognizes representatives of the company listed in the Central Securities Registrar, which in this case is Yukos Finance BV.) Yukos International's ability to complete the transfer of shares from Finance to International will be severely restricted once Rebgun changes his board members, especially if this does not go together with a change in management control. We have heard that as long as Rebgun maximizes shareholder value for the Transpetrol stake and that the proceeds from any sale wind up with the Dutch bailiff, then Yukos International would not oppose to the transaction. When asked by the Ambassador whether the proceeds from the sale would go through the Dutch court system or directly to Russia, Ziga said that he did not know, though he recognized that this could create problems in

Dutch and New York bankruptcy courts.

COMMENT

¶7. (C) The Slovaks are now committed to a deal with Rebgun and his Russian associates. Regaining management control is an important step, and may be the best that we could have hoped for given the legal complications in the Netherlands and pressure from Moscow. Slovakia clearly did not want a deal with a third party from Poland or any other country in the region, and could not get comfortable with a complicated transaction with Yukos International that would have excluded the Russians. The challenge for the Slovaks will be to incorporate the three conditions relating to the future development of the pipeline into the relevant company documents in a way that will force the Russians to follow-through on their commitments. This will not be easy, especially the flow of Caspian oil through the pipeline, since several other actors are involved and the Russians have opposed previous attempts to offer third party access to oil pipelines. In the end the GOS will likely have management control, at least on paper, but will not be able to meet the original objective of promoting true diversity of supply.

¶8. (C) Ziga was notably open about the state of negotiations, much more so than he had been in recent weeks, and appeared to be giving us a full report of the situation as he currently understands it. He even promised to call the Ambassador on November 20 after the conclusion of the shareholders meeting. It is not clear if this was done out of appreciation for our efforts, or if he has concerns about Rebgun's willingness to abide by the framework that was outlined in Russia. End Comment.
SILVERMAN